# LEGISLATIVE SERVICES AGENCY OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington St., Suite 301 Indianapolis, IN 46204 (317) 233-0696 iga.in.gov

## FISCAL IMPACT STATEMENT

LS 7009 NOTE PREPARED: Jan 4, 2024

BILL NUMBER: HB 1004 BILL AMENDED:

**SUBJECT:** Thirteenth Check.

FIRST AUTHOR: Rep. Cherry BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: GENERAL IMPACT: State & Local

X DEDICATED FEDERAL

<u>Summary of Legislation:</u> The bill provides for a thirteenth check in 2024 for certain members, participants, or beneficiaries of the: (1) Indiana State Teachers' Retirement Fund (TRF); (2) Indiana Public Employees' Retirement Fund (PERF); (3) State Excise Police, Gaming Agent, Gaming Control Officer, and Conservation Enforcement Officers' Retirement Plan (EG&C); (4) State Police Pre-1987 Benefit System; and (5) State Police 1987 Benefit System.

Effective Date: July 1, 2024.

Explanation of State Expenditures: Thirteenth Checks - State: Total state costs for the thirteenth checks are estimated at \$34 M in FY 2025. The thirteenth checks for PERF (state), TRF Pre-'96 (teachers who began teaching prior to July 1, 1995), and EG&C will be paid from the pension funds' pre-funded supplemental reserve accounts (SRAs), which are set up to pre-fund cost-of-living increases (COLAs) and thirteenth checks. The thirteenth checks for the State Police pension retirees and beneficiaries will be paid from the State Police Pension Trust Fund. The State Police Pension Trust receives funding from state General Fund appropriations through the biennial budget process.

Pension benefit recipients of PERF, TRF, and EG&C will receive between \$150 and \$450 depending on their years of service while State Police pension benefit recipients will receive a 1% share of the maximum pension for a trooper with certain years of service. The estimate is based on pension fund member retiree, disability, and beneficiary data and years of service as of June 30, 2022. The estimate was adjusted to account for retirements and disabilities occurring between that date and the eligibility dates laid out in the bill (see Table 1).

HB 1004 1

Table 1. State Cost of Thirteenth Checks for Pension Recipients in FY 2025		
	Qualified Retirees/Beneficiaries (Approx.)	Total Cost FY 2025 (in Millions)
PERF (State)	33,500	\$11.5 M
TRF Pre-'96	53,100	\$22.0 M
EG&C Fund	270	\$0.1 M
State Police	1,620	\$0.4 M
Total (State)	88,490	\$34.0 M

Workload Impact: INPRS administers the PERF, TRF, and EG&C funds. The State Police and the Treasurer of State's Office administer the State Police Benefit Funds. This bill will increase workload for these agencies to make additional payments to pension benefit recipients. The administrative costs of the funds are paid from the respective funds.

## Additional Information -

*Total Costs:* The combined state (\$34 M) and local (\$26.8 M) expenditures to provide the thirteenth checks under the bill are estimated at \$60.8 M in FY 2025.

Supplemental Reserve Accounts (SRAs): SRAs were established by SEA 373-2018 for PERF, TRF, EG&C, and the Legislator's Defined Benefit Fund as a way to pre-fund postretirement benefit increases and thirteenth checks. The SRAs are funded by employer contributions as a surcharge as determined by the INPRS Board, in an amount not to exceed 1% of the employers' payroll that is attributable to those employees who are members of PERF, TRF '96, or EG&C. Beginning on January 1, 2023, the surcharge rates are 0.66% of payroll for PERF employers, 0.21% of payroll for TRF '96 employers, and 1.00% of payroll for EG&C employers. Additionally, \$30 M annually of surplus revenue from the State Lottery Commission is transferred to the SRA to pre-fund thirteenth checks and COLAs for members of the TRF Pre-'96 Fund.

#### **Explanation of State Revenues:**

**Explanation of Local Expenditures:** *Thirteenth Checks - Local:* The local cost for thirteenth checks is estimated to be \$26.8 M in FY 2025 for the local share of PERF and TRF '96 (teachers who began teaching after June 30, 1995). The thirteenth checks will provide benefits to approximately 67,000 local PERF members and 10,000 TRF '96 members (see Table 2). The thirteenth checks will be paid from the funds' SRAs which are pre-funded by an employer contribution surcharge.

HB 1004 2

Table 2. Local Cost for Thirteenth Checks for Pension Recipients for FY 2025		
	Qualified Retirees/Beneficiaries (Approx.)	Total Cost FY 2025 (in Millions)
PERF (Local)	67,000	\$23.0 M
TRF '96	10,000	\$3.8 M
Total (Local)	77,000	\$26.8 M

## **Explanation of Local Revenues:**

**State Agencies Affected:** Indiana Public Retirement System, Indiana State Police, Treasurer of State.

# **Local Agencies Affected:**

<u>Information Sources:</u> Cavanaugh Macdonald Consulting, LLC. (2023, January 27). Potential Benefits from the Supplemental Reserve Account for FY 2024 and FY 2025; INPRS. 2022 Comprehensive Annual Financial Report. <a href="https://www.in.gov/inprs/annualreports.htm">https://www.in.gov/inprs/annualreports.htm</a>; INPRS, 2022 valuation pension database; Legislative Services Agency. Indiana Handbook of Taxes, Revenues, and Appropriations, FY 2023; McCready and Keene, Inc. (2022). Department of State Police of Indiana Pension Trust Agreement Actuarial Valuations.

Fiscal Analyst: Camille Tesch, 317-232-5293.

HB 1004 3